

Message Text

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PAGE 01 LISBON 00461 181048Z
ACTION EUR-12

INFO OCT-01 ISO-00 ABF-01 FS-01 OPR-02 FRB-03 XMB-02

CIAE-00 INR-07 NSAE-00 /029 W

-----181050Z 077424 /21

P 180949Z JAN 77

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 9847

DEPT OF TREASURY PRIORITY

LIMITED OFFICIAL USE LISBON 0461

TREASURY FOR DONALD SYVRUD

E.O. 11652: N/A

TAGS: EFIN, ECON, PO

SUBJECT: ESCUDO RATE BEGINS TO MOVE

1. BANK OF PORTUGAL HAS PERMITTED THE ESCUDO TO DEPRECIATE AT A FAIRLY STEADY, RAPID RATE DURING PAST TWO WEEKS. DAILY BUYING RATE FOR CHECKS HAS MOVED FROM ESCUDO 31.29 PER DOLLAR ON JANUARY 4, TO 32.01 PER DOLLAR AT MARKET'S CLOSE ON JANUARY 17, A DECLINE OF 2.2 PERCENT IN ESCUDO TERMS.

2. COMMENT: BANK OF PORTUGAL HAS ADMITTED ON SEVERAL OCCASIONS THAT IT DISLIKES USING THE CRAWLING PEG AS A MEANS TO DEPRECIATE THE ESCUDO. IT BELIEVES THAT THIS PROCEDURE WILL, AS IT DID IN THE FIRST HALF OF 1976, GENERATE SIZABLE LEADS AND LAGS THAT TEND TO AGGRAVATE PORTUGAL'S BALANCE OF PAYMENTS DEFICIT. ON THE OTHER HAND, OTHER GOP AUTHORITIES FEAR THAT A SINGLE LARGE DEVALUATION WOULD GIVE RISE TO STRONG POLITICAL OPPOSITION. APPARENTLY GOP HAS DECIDED ON A COMPROMISE SOLUTION THAT PERMITS A RATHER FAST CRAWL WHICH WOULD QUICKLY ACHIEVE A SIGNIFICANT DEVALUATION.
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Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, CURRENCY CONTROLS, BANKS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 18-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LISBON00461
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770018-0264
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770142/aaaabkpu.tel
Line Count: 47
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 597c47d5-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 1
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3573865
Secure: OPEN
Status: NATIVE
Subject: ESCUDO RATE BEGINS TO MOVE
TAGS: EFIN, ECON, PO
To: STATE TRSY
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/597c47d5-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009